

Labour Market Information Monthly

March 2011 Edition

Issue 3 Volume 8

The financial knowledge of Canadians*

Introduction

For optimum control over their financial lives, Canadians need to be knowledgeable about a multitude of financial options and actively engaged in the financial sector. Research, mostly conducted in a non-Canadian context, has shown that the ability to function within this complex system may influence people's capacity to buy a home, retire comfortably or support their children's post-secondary education.

Many things influence how Canadians navigate their way through the many financial options and services available. One of the factors affecting the finances of individuals is their level of financial knowledge. This article uses the objective assessment (quiz) of financial knowledge that was asked as part of the 2009 Canadian Financial Capability Survey (CFCS). It explores, for the first time in a national Canadian context, how financial knowledge is related to socio-demographic characteristics and other financial behaviours like having a budget or investments. In particular, this article looks at two sets of characteristics: individual demographic characteristics such as age, income and sex; and the financial behaviour of individuals. The study includes individuals aged 18 to 64 who responded to the household income question of the CFCS and answered all the questions in the financial knowledge.

How did Canadians do on the quiz?

Overall, Canadians received a grade of 67% on the quiz. In other words, the average Canadian between 18 and 64, who reported household income in the survey, answered about 9 of the 14 questions correctly. Since this was the first time this group of questions had been asked in a national survey, it is not possible to know if financial knowledge is increasing or decreasing. However, it is possible to determine which characteristics are related to scoring higher or lower than average on the quiz.

The importance of income

Past research, largely done outside Canada, has indicated that income and financial knowledge are related in important ways. Generally, it has been found that people with higher incomes do better on financial knowledge tests. One reason for



this may be that people in lower income brackets may not need to use the same financial services as those in higher income brackets. As a result, people in lower income brackets may have less need for some financial services or knowledge and thus less experience in using these services. For instance, limited disposable income or other financial resources may mean some individuals do not invest in the stock market and may not have acquired the same knowledge as others who do invest in the stock market.

Another reason for the relationship between income and financial knowledge may be that characteristics associated with higher incomes, such as higher levels of education, also influence performance on the quiz. Furthermore, some international research has found a link between financial literacy (of which financial knowledge is an element) and financial behaviours like saving for retirement or using credit—particularly among those in lower income groups.

* Statistics Canada, Leslie-Anne Keown, Canadian Social Trends #91, March 8, 2011.

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The CFCS quiz confirms the important association between household income and financial knowledge. Canadians with household incomes of \$67,000 or less achieved an average score of 62%. Those with income in the median range (\$67,001 to \$95,000) had an average score of 67%. Those with incomes above the median (above \$95,000) had an average grade of 71%, about 10 percentage points greater than those in the lower income group.

Not only did income impact financial knowledge scores directly, but it often influenced the relationship of individual demographic characteristics and financial behaviours with financial knowledge. Thus, it is also important to examine the relationship between financial knowledge and other characteristics both globally and within each income range.



The university-educated score higher on financial knowledge

Education was clearly associated with scores on the financial knowledge quiz. Across all income levels those who had a university degree had higher scores than those with less education. For example, university graduates had an average score of 73% while those with a high school diploma or less had an average score of 60%.

Men consistently scored somewhat higher than women on the quiz but the difference in scores was relatively small for those in the lower and median income groups. The difference was most pronounced in the upper income group where men, on average, scored 3.1 percentage points higher than women.

The relationship between certain characteristics and financial knowledge differs by income level

Labour force status was also associated with quiz scores but the relationship varied across income groups. In the lowest and highest income groups, those who were self-employed or those who were retired scored higher than those who were employed. In the median income group, the relationship between labour force status and financial knowledge was statistically significant but relatively weak.

In the aggregate, it appears that homeowners had higher financial knowledge scores than renters. However, once household income was considered, the relationship between home ownership and higher financial knowledge scores existed only for those in the lower income group. For the middle and higher income groups, home ownership was not associated with financial knowledge scores.

A similar situation occurs when the relationship between age and financial knowledge is considered. In general, the data show that younger individuals (18 to 24 years of age) had less financial knowledge than older individuals. However, once income is considered, the impact of age was seen only in the highest income group—it did not influence scores in the lower and middle income groups. Thus, older people with higher incomes had greater financial knowledge than their younger counterparts, but there were no age-based differences for the other two income groups.

Immigrants score lower on financial knowledge than those born in Canada

Immigrants had lower financial knowledge scores than people born in Canada. However, among immigrants, the length of time they had been in Canada was an important related characteristic—with those in Canada more than 10 years generally scoring higher than more recent immigrants (except in the highest income group). In addition, the difference in scores between those born in Canada and immigrants decreased in size as household income increased.

Labour Market Information Monthly

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Issue 3 Volume 8

Financial knowledge scores vary by region of residence and income

Overall, scores on the financial knowledge quiz increased from east to west—from 64% in Atlantic Canada to 69% in British Columbia. However, as seen with the other socioeconomic and demographic characteristics, once household income is considered the relationship becomes more complex. For the lower income group, scores were higher in the west than in the east. For those in the middle income group, region of residence was not associated with financial knowledge. People in the highest income group had lower scores in Atlantic Canada and Quebec compared with those in Ontario and the west.

Among the various household types, people who lived alone did better on the financial knowledge quiz than those in families. This may be because those who live alone have sole responsibility for their day-to-day financial transactions and other financial decisions.

Financial behaviour and financial knowledge are related but income also plays a role

Not only is there a relationship between financial knowledge and demographic characteristics, but financial behaviour is also linked to financial knowledge. Individuals may acquire financial knowledge and subsequently use this knowledge in their day-to-day financial transactions. For example, individuals can learn about how credit, interest rates and general banking work when using a credit card to pay for purchases or withdrawing money for paying bills. Individuals can use and acquire financial knowledge while undertaking more complex and long-term financial transactions like investing, saving for retirement or making decisions about loans and mortgages. These activities and transactions can be thought of as financial behaviours and they play an important role in the financial knowledge of individuals.

One important element of financial behaviour when considering its relationship to financial knowledge is the choices, decisions and actions made regarding household financial decisions and transactions. There are two distinct areas of financial participation: day-to-day transactions like paying bills and longer term financial decisions like financial investment and planning. In both of these areas, regardless of household income, those who have sole responsibility for these decisions had higher financial knowledge scores than those who had no responsibility or shared the responsibility. For instance, in the below median income group those with sole responsibility for day-to-day financial transactions scored 3 percentage points higher than when responsibility was assumed by someone else (63% versus 60%). In contrast, for those in the above median group, the difference between these two groups is larger at 10 percentage points (74% versus 64%).

Specific actions or behaviours like having a credit card or taking a financial course are also financial behaviours that are related to financial knowledge. Regardless of income level, people with a credit card had higher financial knowledge scores than those who did not (67% versus 58%). People with investments also scored higher than those without, but the magnitude of the difference varied by income. Similarly, having taken some type of financial course in the 12 months preceding the



Making of maple cone candies at Sucrierie Maurifils, Saint-Hilaire

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Labour Market Information Monthly

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Issue 3 Volume 8

survey was associated with higher scores on the financial knowledge quiz. Furthermore, people in the highest income group who followed a budget or made bill payments on time were significantly more likely to have higher financial knowledge scores than those who were in the high income grouping but did not make bill payments on time or follow a budget.

Summary

Navigating the myriad of financial options and understanding the underlying choices available can be a daunting task. Financial knowledge can assist with this navigation while simultaneously being enhanced by these activities.

The relationship between house-hold income and financial knowledge is notable. Those in the higher income group had higher average scores than those in the lower and middle income groups, and the relationship between financial knowledge and other characteristics like demographics and financial behaviours often varied by income group.

Among the demographic characteristics, the relationship between education and financial knowledge was strong, with those with higher education having higher average scores. Men had slightly higher scores than women and the self-employed had higher scores than those employed by someone else and those without work. Home ownership, region of residence, family status and age were also related to financial knowledge and the nature of these relationships varied by income. Immigrants had lower financial knowledge scores than people born in Canada. This relationship was complex, with income and time in Canada being important considerations when looking at average financial knowledge scores among immigrants.

Financial behaviours and financial knowledge were also related and often varied by income group. Being solely responsible for day-to-day financial responsibilities and other types of financial decisions was associated with having higher financial knowledge scores compared to others who shared these responsibilities, but the magnitude of the difference varied by income group. Similarly, other financial behaviours like having a credit card or using a budget were also associated with financial knowledge.



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Issue 3 Volume 8

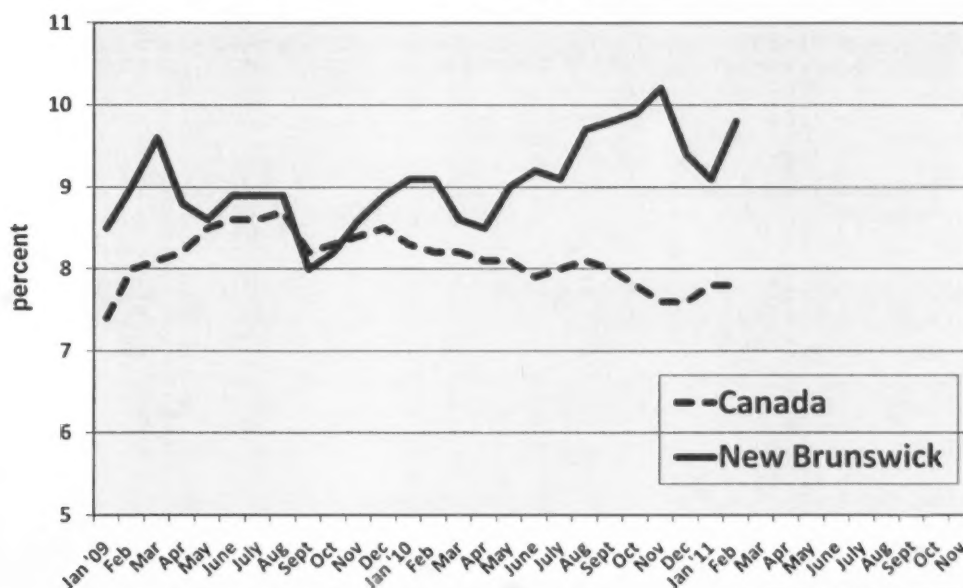
KEY LABOUR FORCE STATISTICS FOR NEW BRUNSWICK (Source: Statistics Canada Labour Force Survey)

New Brunswick	YTD	February '11	January '11	February '10
Labour Force	390,200	391,900	388,400	394,700
Employed	353,200	353,300	353,100	358,800
Unemployed	37,000	38,600	35,300	35,900
Unemployment Rate	9.5%	9.8%	9.1%	9.1%
Participation Rate	63.1%	63.3%	62.8%	64.1%
Employment Rate	57.1%	57.1%	57.1%	58.3%

CANADA COMPARED TO NEW BRUNSWICK

In February, Canada's unemployment rate was 7.8%, unchanged over last month but 0.4 of a percentage point lower than the same time last year. New Brunswick's rate of 9.8% was 0.7 of a percentage point higher than last month and 0.7 of a percentage point higher compared to the same time last year, when it stood at 9.1%.

UNEMPLOYMENT RATES IN NEW BRUNSWICK AND CANADA



Source: Statistics Canada Labour Force Survey

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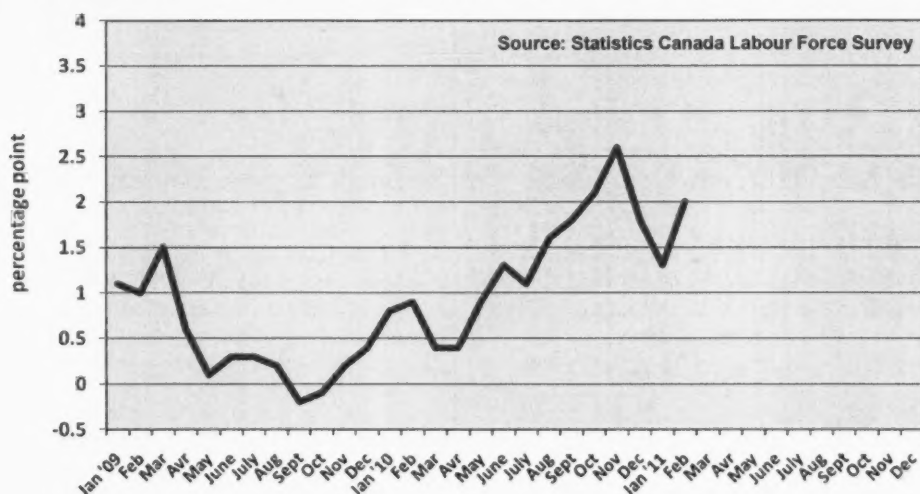
March 2011 Edition

Issue 3 Volume 8

CANADA COMPARED TO NEW BRUNSWICK (continued)

The gap between the national and provincial rates was 2.0 percentage points in February.

DIFFERENCE IN UNEMPLOYMENT RATES IN NEW BRUNSWICK AND CANADA



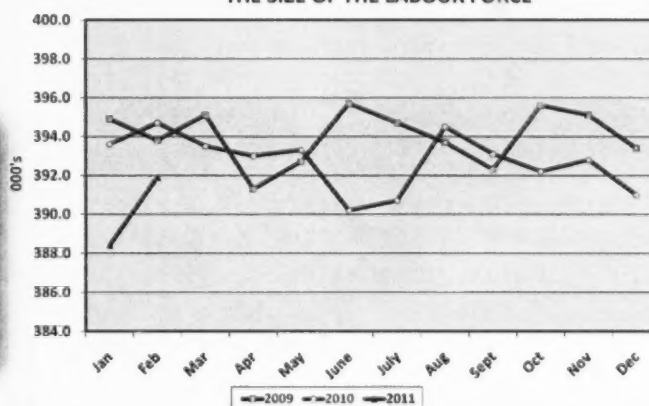
THE LABOUR FORCE

New Brunswick's labour force stood at 391,900 in February. This was an increase of 3,500 over last month, but a decrease of 2,800 over the same time last year.



Source: Statistics Canada Labour Force Survey

THE SIZE OF THE LABOUR FORCE



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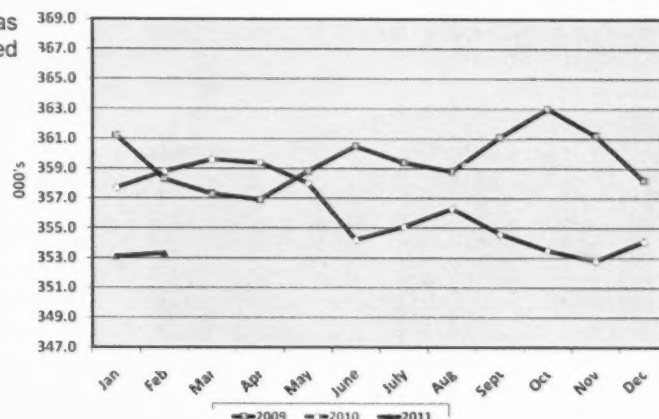
Issue 3 Volume 8

EMPLOYMENT

There were 353,300 people working in February. This was 200 more than last month but 5,500 less when compared to the same period last year.



EMPLOYMENT IN NEW BRUNSWICK

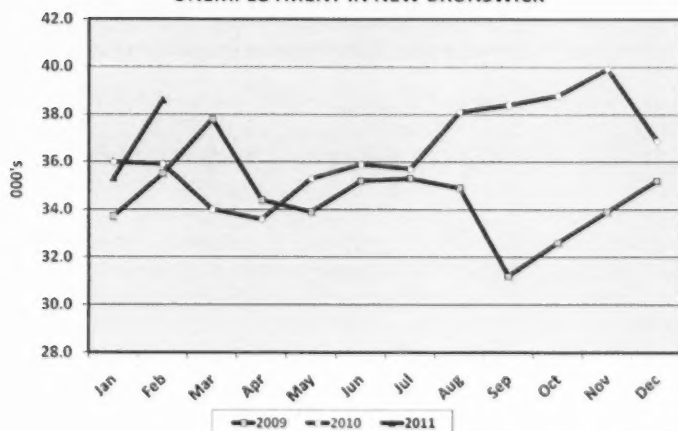


Source: Statistics Canada Labour Force Survey

UNEMPLOYMENT

There were 38,600 people unemployed and seeking work in February. This is 3,300 more people than what was recorded last month and is 2,700 more compared to the same period last year.

UNEMPLOYMENT IN NEW BRUNSWICK



Source: Statistics Canada Labour Force Survey



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Labour Market Information Monthly

March 2011 Edition

Issue 3 Volume 8

THE UNEMPLOYMENT RATE

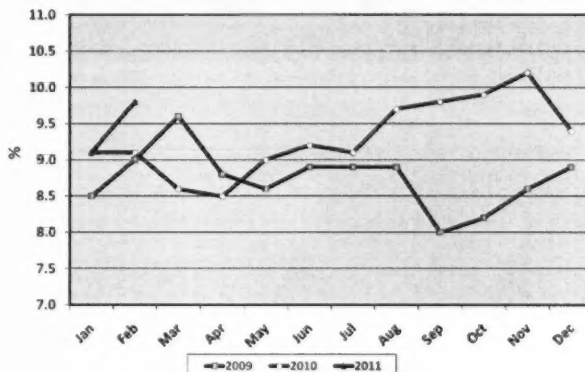
New Brunswick's unemployment rate of 9.8% in February was 0.7 of a percentage point higher than last month and was 0.7 of a percentage point higher compared to the same time last year



THE ECONOMIC REGIONS

Statistics Canada reports labour force statistics for the economic regions as three month moving averages of actual (not seasonally adjusted) data.

THE UNEMPLOYMENT RATE IN NEW BRUNSWICK



Source: Statistics Canada Labour Force Survey

February '11	Economic Regions				
	Northeast	Southeast	Southwest	Central	Northwest
Labour Force	68,600	109,600	91,700	72,400	37,500
Employment	56,800	98,500	85,300	67,300	34,000
Unemployment	11,800	11,100	6,300	5,100	3,500
Unemployment Rate	17.2%	10.1%	6.9%	7.0%	9.3%
Participation Rate	52.8%	64.1%	63.7%	66.8%	57.5%

Economic Regions	YTD		February '11		February '10	
	Emp.	UR	Emp.	UR	Emp.	UR
Northeast	56,500	17.7%	56,800	17.2%	58,400	15.7%
Southeast	99,200	9.7%	98,500	10.1%	99,900	7.4%
Southwest	85,700	6.4%	85,300	6.9%	83,600	8.7%
Central	68,200	6.8%	67,300	7.0%	69,300	7.4%
Northwest	34,400	9.1%	34,000	9.3%	35,600	10.6%

On a year-over-year basis (February 2011 compared to February 2010), employment increased in the Southwest (+1,700) region while it decreased in the Central (-2,000); Northwest (-1,600); Northeast (-1,600) and Southeast (-1,400) economic regions.

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Issue 3 Volume 8

THE INDUSTRY REPORT—LFS Release February 2011

- Overall, total industrial employment decreased by 5,500 jobs between February 2010 and February 2011 (-1.5%).
- The goods-producing sector posted a strong increase from February 2010 to February 2011, increasing by 4,300 jobs; overall employment in the sector stood at 83,000 in February 2011.
- The services-producing sector posted a 3.5% decline between January 2011 and January 2010, losing 9,800 jobs between February 2010 and February 2011; overall employment in the sector stands at 270,300.

Employment growth on a year over year basis was strongest in the following sectors*:

Forestry, Fishing, Mining, Oil and Gas

- Current employment level (February 2011): **11,100** (up 18.1% or 1,700 jobs since Feb. 2010)
- Record employment level (December 1994): **14,500**
- Number of consecutive months with year over year growth: **last 5**
- Number of months with year over year growth in the last 24 months: **8**
- Important considerations: **Rising commodity prices for metals and minerals have been generating increased activity in the mining sector of the province.**

Finance, Insurance, Real Estate, and Leasing

- Current employment level (February 2011): **18,000** (up 15.4% or 2,400 jobs since Feb. 2010)
- Record employment level (February 2011): **18,000**
- Number of consecutive months with year over year growth: **last 3**
- Number of months with year over year growth in the last 24 months: **13**
- Important considerations: **Relatively low interest rates and increased confidence in global financial markets have kept New Brunswickers spending and investing, particularly in some big ticket items (housing and automobiles); increased weather related damage has increased activity in the insurance sector.**

Public Administration

- Current employment level (February 2011): **28,000** (up 15.2% or 3,700 jobs since Feb. 2010)
- Record employment level (March 2009): **28,100**
- Number of consecutive months with year over year growth: **last 5**
- Number of months with year over year growth in the last 24 months: **12**
- Important considerations: **Federal hires in the province may be contributing to this growth**

Construction

- Current employment level (February 2011): **29,400** (up 10.1% or 2,700 jobs since Feb. 2010)
- Record employment level (June 2010): **30,800**
- Number of consecutive months with year over year growth: **last 4**
- Number of months with year over year growth in the last 24 months: **23**
- Important considerations: **Over the past year, stimulus measures were still leading to a strong construction sector. As the stimulus funding ends, it may begin to have an adverse affect on this sector.**

* Includes the top three growth sectors and any sectors that posted a 10% or greater (year over year) increase in employment.

Labour Market Information Monthly

March 2011 Edition

Issue 3 Volume 8

THE INDUSTRY REPORT—con't

Employment growth on a year over year basis was weaker in the following sectors*:

Business, Building and other Support Services (includes the call centre industry)

- Current employment level (February 2011): **15,800** (down 19.8% or 3,900 jobs since Feb. 2010)
- Record employment level (April 2004): **23,000**
- Number of consecutive months with year over year losses: **last 15**
- Number of months with year over year losses in the last 24 months: **18**
- Important considerations: **There were a number of substantial closures in the call centre industry in the province in 2010 that may be contributing to the losses posted in this sector.**

Trade (Retail and Wholesale Trade)

- Current employment level (February 2011): **50,300** (down 12.0% or 7,000 jobs since Feb. 2010)
- Record employment level (August 2005): **60,100**
- Number of consecutive months with year over year losses: **last 3**
- Number of months with year over year losses in the last 24 months: **15 (only 4 in the last year)**
- Important considerations: Rising Unemployment rates and concerns over the immediate future for employment, rising gas and food prices are beginning to cause a drawback in discretionary consumer spending in a number of subsectors of the overall retail sector.

Educational Services

- Current employment level (February 2011): **24,300** (down 11.3% or 3,100 jobs since Feb. 2010)
- Record employment level (June 2007): **28,100**
- Number of consecutive months with year over year losses: **last 3**
- Number of months with year over year losses in the last 24 months: **13 (10 in the last 11)**
- Important considerations: **Shrinking budgets, shrinking student populations and some K-12 school consolidations (i.e. the new Central New Brunswick Academy in the Doaktown/Boisestown area and others) are all affecting this sector.**

Accommodation and Food Services

- Current employment level (February 2011): **19,700** (down 10.0% or 2,200 jobs since Feb. 2010)
- Record employment level (May 2006): **26,500**
- Number of consecutive months with year over year losses: **last 9**
- Number of months with year over year losses in the last 24 months: **18**
- Important considerations: **While improving economic conditions are triggering a rise in leisure travel demand this winter, the relative strength of the Canadian dollar continues to shift travel toward foreign destinations and discouraging American travels from coming to the Province.**

** Includes the bottom three growth sectors and all sectors that posted a 10% or greater (year over year) decrease in employment